

Canadian Marconi Company

**Annual Report
March 31, 1973**

DIRECTORS

C.-E. Bélanger, C.A.

Counsel
Bélanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

L.M. Daley

President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

S. Dobb, F.C.A.

Assistant Managing Director
GEC-Marconi Electronics Limited
London, England

S.M. Finlayson

Mayor
Town of Hampstead
Montreal, Canada

H. Hansard, Q.C.

Senior Partner
Ogilvy, Cope, Porteous, Hansard,
Marler, Montgomery & Renault
Montreal, Canada

E.O. Herzfeld

Vice-Chairman, Canadian Marconi Company
Director of Contracts
The General Electric Company Limited
London, England

H.J. Lang

Chairman and Chief Executive Officer
Canron Limited
Montreal, Canada

J.G. Notman, O.B.E.

Director
Canadair Limited
Montreal, Canada

J.E. Pateman, C.B.E., M.I.E.E.

Managing Director
Marconi-Elliott Avionic Systems Limited
London, England

I.D. Sinclair, Q.C.

Chairman and Chief Executive Officer
Canadian Pacific Limited
Montreal, Canada

R. Telford, C.B.E., F.I.E.E.

Managing Director
GEC-Marconi Electronics Limited
London, England

OFFICERS

E.O. Herzfeld

Vice-Chairman

L.M. Daley

President and Chief Executive Officer

W. Baillie

Vice President, Products and Markets

P.E. Wheatley

Vice President, Finance and Treasurer

E.D. Hickin

Assistant Treasurer

D.A. Beggs

Comptroller

J.A. Howlett

Vice President, Organization and Personnel

C.W. Perry

Vice President, Corporate Affairs and Secretary

J.W. Dodds, Ph.D.

Vice President, Telecommunications Division

K.C.M. Glegg

Vice President, Avionics Division

R. MacLeod

Vice President, Special Services Division

REGISTRAR

Montreal Trust Company

Montreal, Canada

TRANSFER AGENT

Canada Permanent Trust Company

600 Dorchester Boulevard West, Montreal, Canada

AUDITORS

Price Waterhouse & Co.

Montreal, Canada

BANKERS

Royal Bank of Canada

The Annual General Meeting of Shareholders will be held at the Company's Head Office in the City of Montreal, 380 Aberdare Road entrance, on Wednesday morning, August 15, 1973, at 11:00 o'clock.

Pour obtenir une copie française de notre rapport annuel, prière d'adresser votre demande comme suit:

*Le Secrétaire, Canadian Marconi Company
2442, avenue Trenton, Montréal 301, Québec, Canada.*

FINANCIAL HIGHLIGHTS

	Year ended March 31			Year ended December 31		
	1973	1972	1971 (3 months)	1970	1969	1968
Sales and revenues	\$55,750,000	\$57,508,000	\$12,401,000	\$72,577,000	\$82,055,000	\$69,911,000
Depreciation and amortization	1,312,000	1,739,000	446,000	2,001,000	2,191,000	2,145,000
Net income:						
before extraordinary items	1,708,000	782,000	(556,000)	1,791,000	841,000	(4,299,000)
after extraordinary items ..	11,708,000	660,000	(657,000)	4,926,000	841,000	(4,299,000)
Number of shares issued ...	5,943,192	5,943,192	5,943,192	5,943,192	5,943,192	5,943,192
Net income per share:						
before extraordinary items29	.13	—	.30	.14	—
after extraordinary items ..	1.97	.11	—	.83	.14	—
Dividends	594,000	—	—	—	—	297,000
Dividends per share10	—	—	—	—	.05
Shareholders' equity	31,785,000	20,671,000	20,011,000	20,668,000	15,742,000	14,900,000
Shareholders' equity per share	5.35	3.48	3.37	3.48	2.65	2.50
Working capital	32,117,000	17,195,000	15,500,000	15,768,000	10,463,000	8,227,000

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DIRECTORS' REPORT TO SHAREHOLDERS

RESULTS FOR 1972/3

The year ended March 31, 1973 showed a significant improvement in the Company's results. Excluding the operations of the Broadcasting Division, which was sold with effect from July 31, 1972, total revenues were almost \$52 million compared with just over \$46 million in the prior year. On a consolidated basis and including the Broadcasting Division up to July 31, 1972, net income rose from \$782,000, before a loss on exchange of \$122,000, to \$1,708,000 or 29¢ a share before taking into account an extraordinary gain of \$10 million from the disposal of the broadcasting operations.

The improved earnings were generated primarily by our Avionics and Telecommunications Divisions, both of which achieved substantial gains over the relatively depressed profit levels of last year.

Due partly to the sale of the Broadcasting Division and partly to improved cash flow within our remaining operations, the Company ended the fiscal year in a highly liquid position. Cash and short-term investments totalled over \$29 million, up from about \$4 million at the previous year end. Your management is actively studying opportunities for the profitable long-term application of these funds, insofar as they are considered surplus to the Company's likely requirements in its existing activities. Meanwhile they are placed in fairly short-term investments of unquestioned security at reasonably attractive yields.

DIVIDEND

Dividends of five cents per share each were paid in June and December 1972 and a dividend of five cents per share was declared on May 25, 1973, payable on June 30, 1973 to shareholders of record as at June 8, 1973.

CURRENT ACTIVITIES

Continued stringency in military expenditures during the year supports our previous assessment of the necessity to reduce our dependence on defence product sales and emphasize the commercial aspects of our business.

In the field of avionics, significant new product progress was achieved, including successful flight testing and initial sales of Omega navigation systems, and flight instrumentation displays employing fibre optic technology. Full exploitation of the Omega system has been somewhat postponed by delays

in availability of the necessary ground stations but, once a satisfactory number of these has become fully operational, the demand for our equipment should be rewarding. The resources of our major shareholder, and in particular its world-wide marketing organization, are being used to exploit this potential in the most economical way.

First installations of the MCS-6900 digital microwave communications system were commissioned in the later part of the year.

With Canadian Government assistance, work continued on updating existing products and developing new systems in both the avionic and telecommunication fields.

In parallel with these development programs, considerable emphasis was applied to continuing market penetration. Consequently, a larger proportion of our export business is now outside of North America and the new international currency realignment is favourably affecting our competitive position. Our Avionics Division also broadened its range of customers for specialized components, particularly high-quality printed circuit boards.

We have carried out further reorganization of the Marine and Land Communications Division and our U.S. subsidiary, Kaar Electronics Corporation. Kaar's commercial sales activities in the United States have now been mainly converted to dealer distribution rather than direct sales and our dealer network, which has proved of value in the past, is being expanded. It continues to be backed by our own service organization. Improved results are anticipated from this segment of your Company's business as a result of these actions, the estimated cost of which has been charged to the year's operations.

OUTLOOK

A satisfactory start has been made for the current year. However, at the end of the fiscal year our order backlog was at the relatively low level of \$20 million. These orders are well distributed throughout our divisions and in spite of the encouraging outlook for new business, it is anticipated that the sales volume for the current year will be down from the previous year. Despite continuing improvements in efficiency, it will be difficult in 1973/4 to improve on 1972/3 results, which benefited to a limited extent from four months' operations of the Broadcasting Division. While this situation is somewhat disappointing in the short term, it in no way diminishes our confidence in the future profitable development of your Company.

NEW EXECUTIVE APPOINTMENTS

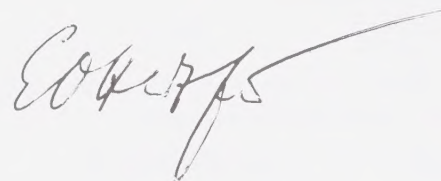
In April 1973 Mr. Philip E. Wheatley was appointed to the position of Vice President, Finance and Treasurer and became an officer of the Company as did Mr. Douglas A. Beggs who was promoted to become Comptroller in January.

Mr. G. Gorfinkel assumed responsibility for Marine and Land Communications Division and Kaar Electronics Corporation as Divisional Manager during December 1972.

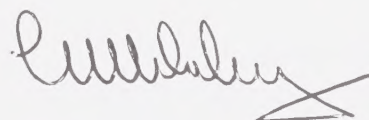
TRIBUTE TO STAFF

The directors wish to record their appreciation to our employees for their continued dedication which has enabled us to report important progress in a year of transition for the Company.

On behalf of the Board,



E. O. Herzfeld
Vice-Chairman



L. M. Daley
President and
Chief Executive Officer

May 25, 1973
Montreal, Quebec

CONSOLIDATED BALANCE SHEET **CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES**

ASSETS	March 31	
	1973	1972
	(in thousands)	
Current assets:		
Cash	\$ 1,060	\$ 588
Short-term investments, at cost, including accrued interest (approximates market)	28,216	3,300
Accounts receivable (Note 3)	6,921	16,056
Owing by associated companies	244	325
Inventories (Note 3)	8,429	9,395
Prepaid expenses	349	1,805
	<u>45,219</u>	<u>31,469</u>
Sundry assets:		
Deferred accounts receivable	706	229
Investments in associated companies, at cost less amounts written off	—	120
	<u>706</u>	<u>349</u>
Fixed assets:		
Land, buildings and equipment, at cost	18,507	28,648
Less: Accumulated depreciation	10,294	16,694
	<u>8,213</u>	<u>11,954</u>
APPROVED BY THE BOARD:		
L. M. Daley, Director		
E. O. Herzfeld, Director	<u>\$54,138</u>	<u>\$43,772</u>

AUDITORS' REPORT

To the Shareholders of
Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at March 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Montreal, May 22, 1973

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31	
	1973	1972
	(in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,808	\$10,781
Owing to associated companies	155	974
Accrued income taxes (Note 4)	4,062	2,371
Sales and excise taxes payable	77	148
	<u>13,102</u>	<u>14,274</u>
Deferred income taxes	<u>1,241</u>	<u>380</u>
Long-term debt (Note 5):		
5¾% unsecured sinking fund debentures, series A, due May 1, 1988	4,984	5,219
7% unsecured sinking fund debentures, series B, due June 1, 1989	<u>3,026</u>	<u>3,228</u>
	<u>8,010</u>	<u>8,447</u>
Shareholders' equity:		
Capital stock—		
Authorized		
7,500,000 shares of \$1 each		
Issued		
5,943,192 shares	5,943	5,943
Contributed surplus	4,273	4,273
Retained earnings	<u>21,569</u>	<u>10,455</u>
	<u>31,785</u>	<u>20,671</u>
	<u>\$54,138</u>	<u>\$43,772</u>
Contingent liability:		
Accounts receivable under leases discounted and repurchase agreements	\$2,450,000	

CONSOLIDATED STATEMENT OF INCOME

	Year ended March 31	
	1973	1972
	(in thousands)	
Sales and revenues:		
Electronic product sales	\$51,798	\$46,125
Broadcasting revenues (Note 6)	3,952	11,383
	<u>\$55,750</u>	<u>\$57,508</u>
Income from operations before the items shown below (Notes 3, 6, 7 and 8)	\$ 8,313	\$ 7,571
Research and development (net of recoveries)	3,040	3,006
Depreciation	1,312	1,739
Interest:		
Income	(938)	(86)
Expense (Note 9)	531	713
	<u>(407)</u>	<u>627</u>
	3,945	5,372
Income before income taxes and extraordinary items	<u>4,368</u>	<u>2,199</u>
Provision for income taxes (Note 4):		
Current	3,435	2,478
Deferred	(775)	(1,061)
	<u>2,660</u>	<u>1,417</u>
Net income before extraordinary items	1,708	782
Extraordinary items:		
Gain on sale of Broadcasting Division (net of income taxes \$2,900) — (Note 6)	10,000	—
Loss on exchange due to freeing of the Canadian dollar (net of income taxes \$122)	—	(122)
Net income	<u>\$11,708</u>	<u>\$ 660</u>
Earnings per share:		
Net income before extraordinary items	\$ 0.29	\$ 0.13
Net income	1.97	0.11

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended March 31	
	1973	1972
	(in thousands)	
Retained earnings, beginning of year	\$10,455	\$ 9,795
Add: Net income	<u>11,708</u>	<u>660</u>
	22,163	10,455
Deduct: Dividends—10 cents per share	<u>594</u>	<u>—</u>
Retained earnings, end of year	<u>\$21,569</u>	<u>\$10,455</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended March 31	
	1973	1972
	(in thousands)	
Source of funds:		
Operations—		
Net income before extraordinary items	\$ 1,708	\$ 782
Depreciation	<u>1,312</u>	<u>1,739</u>
	3,020	2,521
Proceeds on sale of non-current assets of Broadcasting Division, net of income taxes	<u>12,550</u>	<u>—</u>
Disposal of fixed assets	800	638
Increase (decrease) in deferred income taxes	<u>861</u>	<u>(144)</u>
	<u>\$17,231</u>	<u>\$ 3,015</u>
Application of funds:		
Increase in sundry assets	\$ 477	\$ 59
Additions to fixed assets	801	1,039
Repayment of long-term debt	437	100
Extraordinary item—loss on exchange, net of income taxes	—	122
Dividends	<u>594</u>	<u>—</u>
Increase in working capital	<u>14,922</u>	<u>1,695</u>
	<u>\$17,231</u>	<u>\$ 3,015</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—MARCH 31, 1973

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Canadian Marconi Company and its subsidiary companies, all of which are wholly owned. The only operating subsidiary is Kaar Electronics Corporation which is engaged in the sale and leasing of marine and land communications equipment in the United States of America.

2. EXCHANGE:

Current assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange in effect as at March 31, 1973. This rate has also been applied to the fixed assets of the United States subsidiary which are not significant in amount. Amounts entering into results of operations have been translated at average rates. Exchange profits and losses are included in net income.

3. INVENTORIES:

Inventories may be summarized as follows:

	1973	1972
	(in thousands)	
Contracts and other work in progress, at cost, less progress payments	\$2,985	\$3,530
Raw materials, at cost, not in excess of market	1,620	1,350
Finished products, at lower of cost or net realizable value	3,824	4,515
	<u>\$8,429</u>	<u>\$9,395</u>

Profits on major long-term contracts are recorded on a stage of completion basis based on the ratio of incurred costs to date to the projected total costs of completing the contracts. Unbilled costs and accrued profits, less progress payments, relating to these contracts are included in accounts receivable in the accompanying consolidated balance sheet.

Deductions are made for any losses incurred or expected to be incurred on contracts uncompleted at March 31, 1973.

4. INCOME TAXES:

Consolidated income before taxes and extraordinary items has been reduced by the loss of the Company's United States subsidiary, which cannot be deducted from the parent company's taxable income. The provision for income taxes is therefore based on the income of the parent company. Income taxes deferred at March 31, 1973 by reason of timing differences between accounting and taxable income amount to \$2,264,000 of which \$1,023,000 relates to short-term deferments and is included in current liabilities under the caption accrued income taxes in the accompanying consolidated balance sheet.

5. LONG-TERM DEBT:

Sinking fund provisions of the series A and B debentures require payments in May and June aggregating \$237,000 annually in 1973 and 1974, and \$316,000 annually in 1975, 1976 and 1977. Debentures have been purchased and surrendered for cancellation in full satisfaction of 1973 and 1974, and in partial satisfaction of 1975, requirements.

6. SALE OF BROADCASTING DIVISION:

On July 31, 1972 the Company sold the net assets and business of the Broadcasting Division to Multiple Access Limited for \$18,000,000 cash. The excess of the sale price over the book value of the net assets sold, less related income taxes, has been credited to 1973 income as an extraordinary item. The operating results of the Division for the four months ended July 31, 1972 are included in the consolidated statement of income for the year ended March 31, 1973.

7. DIRECTORS' AND OFFICERS' REMUNERATION:

The remuneration of eleven directors, as directors, amounted to \$19,675 (1972—\$17,700) and the remuneration of sixteen officers, as officers, amounted to \$480,455 (1972—\$444,431). Two (1972—three) of the officers were also directors of the Company. None of the directors or officers has received remuneration from any of the Company's subsidiaries.

8. SPECIAL PROVISION IN RESPECT OF SUBSIDIARY COMPANY:

Kaar Electronics Corporation is currently reorganizing its marketing operations and has closed a number of branches. A provision of \$676,000 has been included in the consolidated statement of income for the year ended March 31, 1973 in respect of unusual losses that the Company considers may result from this reorganization.

9. INTEREST:

Interest expense includes \$517,000 (1972—\$529,000) on long-term debt.

OPERATING DIVISIONS

AVIONICS DIVISION

Engineering, manufacturing and marketing of airborne Doppler and Omega sensors, navigation and tactical computers, altimeters and aircraft instruments. Manufacturing and marketing of printed circuit boards.

MARINE AND LAND COMMUNICATIONS DIVISION

Engineering, manufacturing and/or marketing of mobile two-way radio and associated base station equipment; hand-held radio telephones and pocket paging units; broadcast and television station equipment; industrial and educational closed-circuit television; electronic test instruments; marine radar; loran; depth sounders and fish finders; HF-AM and VHF-FM marine radio telephones; single sideband transreceivers; systems planning, construction, installation and maintenance.

SPECIAL SERVICES DIVISION

Installation of radar, communications and air navigation equipment and systems, and operation of defence communications and detection systems. Repair and overhaul shops for radar, sonar, communications equipment and diesel electric generators, and an approved test equipment repair and calibration laboratory.

TELECOMMUNICATIONS DIVISION

Engineering, manufacturing and marketing of commercial and military land-based microwave communications equipment, ancillaries, and associated test equipment.



CANADIAN MARCONI COMPANY
FIRST NAME IN RADIO-ELECTRONICS

Canadian Marconi Company
2442 Trenton Avenue
Montreal, Quebec
H3P 1Y9



Globe & Mail, The
Financial Editor,
Toronto, Ont.

1973
INTERIM REPORT



CANADIAN MARCONI COMPANY

AR29

SIX MONTHS ENDED
SEPTEMBER 30
(unaudited)
1973 **1972**
(in thousands)

CONSOLIDATED STATEMENT OF INCOME

SALES AND REVENUES	<u>\$20,314</u>	<u>\$32,102</u>
Income from operations before the items shown below	<u>\$ 2,336</u>	<u>\$ 4,275</u>
Research and development (net of recoveries)	\$ 812	\$ 1,361
Depreciation	508	693
Interest:		
Income	866	284
Expense	249	262
	<u>\$ 703</u>	<u>\$ 2,032</u>
Income before income taxes and extraordinary item	<u>\$ 1,633</u>	<u>\$ 2,243</u>
Provision for income taxes	734	1,251
Net income before extraordinary item	<u>\$ 899</u>	<u>\$ 992</u>
Extraordinary item:		
Gain on sale of Broadcasting Division	—	10,000
NET INCOME	<u>\$ 899</u>	<u>\$10,992</u>
Net income per share:		
Before extraordinary item	\$ 0.15	\$ 0.17
Including extraordinary item	0.15	1.85

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:

Operations —		
Net income	\$ 899	\$ 992
Depreciation	508	693
Gain on sale of Broadcasting Division	—	10,000
Net book value of Broadcasting Division fixed assets and investments sold	—	2,550
Increase in deferred income taxes	—	1,011
Decrease in sundry assets	194	—
	<u>\$ 1,601</u>	<u>\$15,246</u>

APPLICATION OF FUNDS:

Increase in sundry assets	\$ —	\$ 279
Additions to fixed assets (net)	221	192
Repayment of long-term debt	59	103
Dividend paid	297	297
Increase in working capital	1,024	14,375
	<u>\$ 1,601</u>	<u>\$15,246</u>

TO THE SHAREHOLDERS

Results for the first half of the year were generally in line with expectation. Sales volume was \$11,788,000 lower than in the first half of the prior year which included \$3,952,000 in revenue from the Broadcasting Division sold by us in July 1972. Order backlog is continuing to recover and at the end of September totalled approximately \$25,000,000.

The second quarter's after-tax earnings were ahead of the corresponding quarter last year despite a sharp drop in sales. Outlook for the current year's earnings has improved with the higher order backlog and with better yields from our short-term investments.

A conditional agreement has been reached with the Department of National Revenue in respect of certain assessments of income taxes for the years 1968 and 1969, concerning transactions with a subsidiary, which had been contested by your Company. It is not possible to say precisely the amount of recovery of taxes that will result but we estimate it will be approximately \$2,000,000.

In the light of the improving outlook and the Company's liquidity your directors have declared a half-yearly dividend of 7.5¢ per share (against 5¢ previously), payable on December 14, 1973 to shareholders of record as at November 30, 1973.

L. M. Daley
President and Chief Executive Officer

Montreal, Quebec
November 16, 1973